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Approved by:

Susan Reid

U.S. Embassy

Prepared by:

Mila Boshnakova

Report Highlights:

Bulgaria's accession to the European Union is expected to have a significant impact on the country's agricultural and food sector and trade. The most significant changes are likely to come from adoption of the Common Agricultural Policy, new regulatory requirements, and application of new external tariffs. Despite substantial EU assistance, far exceeding domestic support in pre-2006 period, structural and administration problems are expected to limit the country's potential to absorb funding in 2007.

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Executive Summary

Bulgaria's accession to the European Union (EU) is expected to significantly impact the agricultural and food sectors because of its integration into the Single Market and its adoption of the Common Agricultural Policy (CAP). Local farming and food industries are likely to have limited access to EU funding during the first year of membership due to a number of issues related to delayed accreditation of institutions, late approval and coordination of strategic programs, and underdeveloped administrative capacity for disbursement and control of EU funds.

Domestic support for agriculture in 2007 is expected to be limited and lower than in 2006 when the sector relied on national budget funds. The first direct payments are likely to be paid to farmers no earlier than November 2007, and the first applications under the Rural Development Fund are anticipated to arrive after mid-2007. The agricultural/food sector has an option to apply under operational programs, however, these programs were approved by the GOB in early March (and not yet by the EU), and the actual use of funds is not likely to occur before the fall of 2007. Many agricultural producers will be left without direct payments due to their smaller size and lack of producer organizations.

The meat and dairy sectors will face severe challenges due to the absence of substantial support for livestock businesses. At the same time, the sector will be exposed to significant competitive pressure from the old and new EU member states (MS). Intra-community free movement of goods, labor and capital will stimulate competition and force local producers to adapt to the new safety and quality standards. Export restrictions in a number of areas (mainly meat and dairy) will continue to apply until 2008. In spite of having the lowest consumer incomes in the EU, Bulgarian consumer prices are expected to gradually move towards EU levels and a rise in staple food prices is anticipated in the near future. These processes will negatively affect certain sectors and undoubtedly cause structural changes. Some of the inherent problems of Bulgarian agriculture the rural areas are likely to sharpen in the short run, although access to EU assistance may ameliorate these effects in the medium term.

Key Problems of Bulgarian Agriculture

The Bulgarian economy has grown over the last several years (a growth rate of 6.3 percent in 2006), while the share of agriculture in Bulgaria's GDP has declined (10.1 percent in 2003 to 8.0 percent in 2006). The agriculture sector had unstable development due to its high susceptibility to climatic factors. Thus, in the third quarter of 2006, the agricultural sector gross domestic product growth was flat (compared to the same period in 2005); in 2005, the growth was negative (-8.6 percent) and in 2004, the growth was positive (+3.0 percent). The sub-sectors with the highest contribution to the agricultural GDP are grains, oilseeds, tobacco, tomatoes, grapes; and the dairy and poultry industries. Bulgaria has remained a net agricultural exporter with about USD 200 million positive agricultural trade balance in 2006.

The production structure of the farming sector continues to represent a major challenge for Bulgaria, including in its potential to absorb EU funds.

Some of these issues are:

- Fragmented small agricultural holdings (large number of subsistence and semi-subsistence farms, with low agricultural profitability);
- Rural unemployment and poverty; lack of alternative employment;
- Low rural education level;

- Insufficient modernization and marketing expertise in primary food processing;
- Underdeveloped rural infrastructure and supporting institutions;

The national agricultural 2005 survey showed the following about the current status of Bulgarian agricultural sector:

Farm structure:

- Number of agricultural farms – 534, 613 farms (down from 665,550 farms in 2003) utilizing 2.7 million HA land (down from 2.9 million HA in 2003);
- Average size of a farm – 5.2 HA (up from 4.4 HA in 2003);
- Owned-farmed agricultural land- 0.66 million HA; tenant-farmed land- 2.0 million HA;
- Number of farms which utilize land - 407,000, cultivating 2.5 million HA of arable land;
- 77 percent of farms cultivate less than 1.0 HA which represents 7 percent of total utilized land. Less than 1.0 percent of farms cultivate land above 1.0 HA and utilize 76 percent of total agricultural land;

Agricultural labor:

- 3.5 percent of farmers have secondary or higher education, the majority has only practical experience;
- Farmers below 35 years age are 5 percent of all farmers;
- Number of employed in the agricultural sector is about 760,000-800,000 people and represent 25 percent of total labor force;

Farm equipment:

- Low capital intensity – only 9 tractors /1000 HA compared to 17 in Romania and 66 in France; 4 combines/1000 HA compared to 42 in Germany;
- Farms which apply irrigation – 70,000 holdings utilizing 54,000 HA.

Subsistence farming is still prevalent in the Bulgarian agriculture. Recently, the trend towards consolidation and efficiency has become increasingly visible. In the short run, however, polarization in the sector and the lack of “middle class” farms is likely to create significant issues with the absorption of EU funds. Some of these issues are expected to be effectively addressed through the EU assistance, especially the structural and cohesion funds, intended to alleviate disparities among various EU regions.

EU funding

The GOB recognizes that the major challenge in the first accession year is to develop the national ability for efficient use of EU funds. This policy is pursued not only in the agricultural sector but also in other sectors which can access EU structural and cohesion funds.

Despite the active communication campaign, the GOB expects that the absorption rate of total EU funding in 2007 to not exceed 20 percent. The main reason is underdeveloped administrative capacity and late accreditation of institutions and approval of strategic programs.

The total amount of EU funds (without national top-ups) under the National Strategic Referent Framework (NSRF) for the period 2007-2013 is 6.8 billion Euro of which 2.6 billion Euro are from the agricultural funds (see Table 1). The operational programs under the

structural and cohesion funds were approved by the GOB in early March 2007. It is expected that the EC will approve final programs by May/June 2007.

The European Fund for Regional Development (EFRD) is focusing on regional development, environment, competitiveness, technical assistance, inter-regional cooperation within the EU; the European Social Fund (ESF) supports projects related to human resources development and administrative capacity strengthening; and the Cohesion Fund (CF) addresses environmental protection and infrastructure. The CF is meant to alleviate disparities among regions at the EU level. Regions of Bulgaria easily meet the qualifications for finance under the CF, based on convergence criteria. This funding may cover up to 85 percent of the total cost of a project, with the balance coming from the national budget.

For the period 2007-2009, Bulgaria will receive funding under four components: agriculture (1.562 billion Euro); structural funds (2.3 billion Euro); internal policies and administration (498 million Euro) and budget compensations (240 million Euro) or total of 4.6 billion Euro. The national co-financing of structural and cohesion funds is as follows: 2007 - 150 million Euro, 2008 - 280 million Euro, and 2009 - 545 million Euro.

Table 1. Financial framework for EU Funds in Bulgaria under the National Strategic Referent Framework (NSRF) 2007-2013, million Euro

Financial framework for EU Funds in Bulgaria under the National Strategic Referent Framework (NSRF) 2007-2013, Euro			
Operational programs (OP)	Fund	Total 2007-2013	2007
European Fund for Regional Development (EFRD) and Cohesion Funds (CF)			
OP Competitiveness	EFRD	988	72
OP Regional Development	EFRD	1 361	99
OP Transport	EFRD+CF	1 624	121
	EFRD	369	27
	CF	1 256	94
OP Environment	EFRD+CF	1 466	109
	EFRD	439	32
	CF	1 027	77
OP Technical Assistance	EFRD	48	3
European Social Fund (ESF)			
OP Human Resources	ESF	1 032	75
OP Administrative Capacity	ESF	144	11
Total EU funds			
Total funds under NSRF		6 674	491
Total EFRD		3 205	233
Total CF		2 283	171
Total ESF		1 185	86
EAFRD (European Agricultural Fund for Rural Development)		2 609	244
European Fund for Regional Cooperation (EFRC)		179	
Total Funds		6 853	
Source: Bulgarian Ministry of Finance			

EU funding for Agriculture**CAP Financing**

In addition to structural funds, Council Regulation 1290/2005 regarding the financing of the common agricultural policy (CAP) established the legal framework for the two funds dedicated to agriculture: EAGF (European Agricultural Guarantee Fund) aiming to finance Pillar I measures (market policies) and EAFRD (European Agricultural Fund for Rural Development) for financing rural development programs within Pillar II of CAP. The EAFRD contributes to the promotion of sustainable rural development in the EU, complementing the market and income support policies implemented within CAP, the cohesion policy and the fishery common policy. This fund is an instrument that complements the national, regional and local measures and should be compatible with the economic and social cohesion

objectives and with those of the Instrument for Community Aid in the fishery sector, and with the measures financed by the European Agricultural Guarantee Fund.

The EU financial package for agriculture in Bulgaria for the period 2007-2009 is at 1.562 billion Euro, under three components:

Direct payments (subsidies) under Single Area Payment Scheme (SAPS) – 440 million Euro
Note: This is the EU funding for 2007 and 2008 which will be spent initially by the GOB and reimbursed to the GOB year later. Detailed direct payments per year are provided below.
Market Support – 388 million Euro;
Rural Development – 733 million Euro (183 million for 2007, 244 million for 2008, and 306 million for 2009).

While direct payments will be phased in until 2016 (commencing in 2007 at 25 percent of the support level applicable in the EU-15), budgetary outlays for market support and rural development will be 100 percent payable at the level of EU-15 from the first year of accession.

National budget top-ups for agriculture in 2007 should include 391 million leva (USD 195 million Euro) for direct payments; 285 million leva (142 million Euro) for market support and intervention; 104 million leva (52 million Euro) for rural development, or total 778 million leva (389 million Euro). This will be the expected spending in the sector in 2007 which is to be reimbursed by the EU in 2008. The ceiling for EU funding is about 1.2 billion leva (600 million Euro); however, the national outlays are based on expected maximum 50 percent absorption rate for EU agricultural funding. This is higher compared to 2006 pre-accession national budget allocation of 1.4 percent of GDP for agriculture (327 million Euro). It remains to be seen, however, if the use of funds will be at the planned rate.

National ceilings for SAPS payments, in million Euro, 2007-2013:

2007 - 200.4
2008 - 240.5
2009 - 281.1
2010 – 321.4
2011 – 401.6
2012 – 481.9
2013 – 562.3

Source: Agra Europe, EC

Paying Agency

The current situation in the agricultural sector is a subject of high concern. The EC introduced an additional mechanism to give Bulgaria time to complete the necessary work on proper functioning of Integrated Administrative Control System (IACS). In the case of systemic problems with management of EU funds, the EC may provisionally withdraw 25 percent of the payments covered by IACS. Bulgaria has to demonstrate the presence of an efficient administrative and management system for disbursement and strict control of funds. An EC mission in the spring will verify progress.

In 2006, Bulgarian Ministry of Agriculture began to apply some of the Common Agricultural Policy (CAP) support mechanisms in an effort to train its personnel and prepare for the future EU funds. Thus, the subsidies paid for wheat (11 million Euro), corn and sunflower (5 million Euro) were paid per hectare; the limitation on subsidized area was abolished and a limit was

imposed on the size of the subsidy per a farmer. Spot checks for these measures were implemented.

At the end of 2006, the Paying Agency responsible for managing EU funding for agriculture received conditional accreditation. The Paying Agency (PA) will execute direct payments, market support/interventions, and export subsidies in agriculture; it will also administer other payments related to market policies. The PA will be responsible for rural development project financing in Bulgaria. As a current SAPARD Agency it will continue to implement the SAPARD Program and will carry out the technical and financial implementation of the EAFRD and of the European Fund for Fishery (EFF).

This institution needs to be granted a full accreditation by Brussels to become operational. It is expected to occur when the GOB meets two requirements: to strengthen its administrative capacity; and to approve the operational programs under the Rural Development Plan. Full accreditation is expected by August/September 2007.

The absorption rate for SAPARD funds accelerated significantly in 2006. Contracting and spending under the pre-accession SAPARD assistance will continue gradually until the end of 2008. At the end of 2006, SAPARD reported over 2,400 approved projects for a total investment value of 2.2 billion leva (over 1.1 billion Euro) and a subsidy of 1.1 billion leva (roughly 550 million Euro). About 100 million leva (50 million Euro) are likely to be disbursed by SAPARD in 2007. This represents the remaining 14 percent of SAPARD funding which is likely to be fully absorbed by 2008.

SAPARD addressed some of the farming sector weaknesses (see "key problems" section) but the focus has mainly been on equipment at farms and food processing plants. Investment in primary agricultural production, especially livestock, has not been sufficient. Irrigation, research, training, breeding programs, and extension service did not benefit from the program. As a result, today the agricultural sector faces a shortage of raw materials in the meat, dairy, fruits and vegetable sectors, and overcapacity in the food processing sector.

Pillar I: Market Measures

Similarly to the 10 MS who joined the Union in 2004, Bulgaria is gradually introducing direct payments over a ten-year period with the following schedule of increments expressed as a percentage of the then-applicable level of such payments in the EU-15: 2007 – 25 percent, 2008 – 30 percent, 2009 – 35 percent, 2010 – 40 percent and thereafter in 10 percent increments so as to reach the support level then applicable in the EU-15.

From the first year of EU accession, the amounts budgeted in direct payments can be supplemented by top-ups out of national funds (or through moving Rural Development funds in the first 3 years after accession, as Bulgaria chose to, see the tables below). The complementary national payments should not exceed 55 percent of the value of direct payments in the EU in the first accession year, 60 percent in the second year and 65 percent in the third; beginning with the fourth year maximum 30 percent above the level of payments of the respective year.

Bulgaria opted for the Single Area Payment Scheme (SAPS) for the three years of membership, after which it has the option to switch to Single Farm Payment (if IACS is capable of administering the single payment scheme – SPS). The minimum eligible farm size was set at 1.0 HA and 0.5 HA depending on the crops, with the minimum eligible plot being 0.1 HA. Full cross-compliance rules will apply at the end of the three years, regardless of which payment scheme is used.

SAPS provides farmers with a uniform per HA lump sum, payable once a year, regardless of the crops planted, under the condition that farmers maintain the soil in proper agronomic condition and meet good farming practices standards.

In March 2007, based on the number of eligible applicants, the Ministry of Agriculture estimated that direct subsidies will be roughly 70 Euro/HA with 50 Euro/HA from the EU funds and 20 Euro/HA from the national top-ups for 2007 payments.

This official estimate is based on the total amount of direct subsidies for 2007 - 391 million leva (about 192 million Euro) of which 272 million leva (136 million Euro) from the EU, and 118.45 million leva (59 million Euro) from the national top-ups. National co-financing represents 25 percent from axis 2 of the rural development funds (EAFRD) and 24.5 million leva (13 million Euro) from the national budget. National top-ups for 2008 and 2009 are 20percent and 15percent, respectively, of EAFRD allocations for this period.

The Bulgarian Ministry of Agriculture made a lot of effort to promote EU programs and encourage farmers to register and apply for EU funds. The focus has been on SAPS schemes. As of today, farmers identify several challenges with access to SAPS:

- a number of farmers cannot meet the eligibility criteria for minimum 1.0 HA of cultivated land for fields crops and vegetables, and 0.5 HA for perennials (vines, fruits) and tobacco; and 0.1 HA for each land plot within the total minimum area. Farmers with smaller size land can unite in producer organizations; however, the process is complicated and not feasible in the short term. The Ministry of Agriculture estimates that 148,000 farmers (28 percent of total) can meet direct payments requirements; they account for 95 percent of agricultural land and have an average size of 0.56 HA/farm.
- Due to unclear land ownership, it is highly likely that some of the claimed land plots will overlap and the property rights will become an issue. If the respective farmers can not solve the dispute on their own, their right to use direct payments can be suspended.
- Although the requirements for good farming practices appear simple (no weeds, no stones in the field), it will be difficult for many farmers to implement them due to their lack of knowledge, experience and necessary equipment. Currently, the Ministry of Agriculture is creating national standards for good farming practices, which introduce a number of new rules and restrictions, such as a ban on traditional burning of stubble fields.

According to the latest data, 61,363 farmers have registered and identified their land in the IACS system for total 2.99 million HA through February 2007. Of all registered farmers, 5,000 are judicial persons and they account for 2.2 million HA of land while 56,000 individual farmers account for 0.8 million HA of land. This means that 80 percent of total eligible for support agricultural land (3.8 million HA) has been identified and registered. Payments are planned to start by December 2007 and last until June 2008. Payments are expected to be late due to issues with delayed accreditation of the Paying Agency.

The products eligible for top-ups augmenting the direct payments are as follows: grains, oilseeds, technical crops and vegetables. Tobacco, perennials (including vines), pastures and meadows will not be supported from the national top-ups under SAPS since they are already supported from other national sources. In 2007, energy crops will not be subsidized.

Allocations for market measures for 2007-2009 will total 388 million Euro, in the form of market interventions (price support through buying the surplus production and its storage in public or private stocks) and export refunds.

Pillar II: Rural Development

According to C.R. 1698/2005, each MS has to submit a National Strategic Plan considering the strategic orientation of the Community, the priorities of the EAFRD and of the member state itself, as well as their specific objectives and the financial planning (EAFRD contribution and the other financial resources). A Member State selects from 37 measures, divided into three axes. Additionally, LEADER axis provides the general framework and action methods at local community level.

The EC has not yet approved the Bulgarian National Strategic Plan and a Program for Rural Development for 2007-2013. The National Strategic Plan was approved by the GOB in late February and sent to the EC in early March 2007. The Program for Rural Development is likely to be approved by the GOB and sent to Brussels by the end of March. An approval of these strategic documents is expected later in 2007 (August).

The draft of the National Strategic Plan introduces three main priorities (axes):

Axis 1. Development of competitive agriculture and forestry sector, and a food industry based on progressive innovations (40 percent – 42 percent of total funds);

Axis 2. Protection of natural resources and environment in rural areas (26 percent-27 percent of total funds);

Axis 3. Development of employment opportunities and improved living standard in rural areas (30 percent-31 percent of total funds).

Currently, Bulgaria does not have any approved local initiative groups under the LEADER program. Upon the EC approval of the Program for Rural Development, the Ministry of Agriculture plans to undertake a communication campaign to encourage the establishment of such groups. Two pilot projects (with UNDP, and with the Swiss Government) have been implemented, under which such groups were created in 50 residential places. Bulgaria will rely on this experience to multiply the number of local initiative groups.

The EAFRD allocation for Bulgaria in the period 2007-2013 is for 2.609 billion Euro of which 244 million Euro are dedicated to 2007 year (Table 2). The national top-ups are 633 million Euro or total funds of 3.242 billion Euro. This amount is about 6 times higher than current SAPARD allocation for the last 6 years, hence its efficient use might be a challenge for the country.

According to current classification (Decree 14 of 2003), 231 out of total 264 municipalities in Bulgaria are qualified as rural. The final list of municipalities which are eligible to apply for rural development funding is not yet completed. It is estimated that at least 180 municipalities from the rural areas will be included in this list. The latest local surveys show that 76.5 percent of the territory of the country is strictly rural, with 58 percent population living there; and the share of GDP generated by rural areas at 48 percent. Overall, 90 percent of the total territory of Bulgaria can be characterized as mainly rural.

Table 2. Allocations for Bulgaria under EAFRD for the period 2007-2013, in million Euro.

Year	EU	National Budget	Total
2007	243	59	286
2008	336	82	387
2009	436	106	492
2010	398	96	451
2011	397	96	423
2012	396	96	429
2013	395	95	434
total mil. Euro	2 603	631	3 234
total mil. Leva	5 090	1 234	6 325

The allocation includes as well 141 million Euro (or 177 million Euro with the national top-ups) payments transferred from EAFRD to direct subsidies payments (SAPS) for the period 2007-2009.

The GOB proposed a budget under priority axes of EC1698/2005 as follows:

Table 3. Proposed Budget Distribution under Axes of EAFRD

Priority/axis	Percent of the budget	EU funds	National budget	Total EU+ national budget
Axis I	40 percent	984	246	1 230
Axis II	26 percent	640	140	780
Axis III	30 percent	738	185	923
Axis IV LEADER	2,5 percent	62	15	77
Technical Assistance	4 percent	98	25	123
Measure „National additional supplements to direct payments“		141	35	176

Note: The funds under pillar IV, LEADER, are part of the funds under the first three pillars.

In early 2007, the Ministry of Agriculture was allowed by the EC to restore its national support program for the livestock (dairy) sector. The program is focused on soft loans for investment projects and the allocation for 2007 is 10 million leva (5 million Euro). The program can be used for purchase and imports of genetic material, and/or the establishment and modernization of farms and milk collection stations. The Ministry of Agriculture has proposed to restore the similar programs for crops and farming equipment, however, Brussels has not yet approved this request.

Trade Policy

EU membership significantly changes agricultural and food trade in Bulgaria. Some of the opportunities for U.S. exporters decline, other grow and there are several important new market opportunities for new food products. In general, Bulgarian agricultural and food imports from the U.S. are forecast to be dominated by consumer oriented and high-value products. The demand for these products will grow due to expanding share of the retail and food service sectors. The lower than EU average consumer incomes will be the major limiting factor.

In 2007, most importers will have to start learning how to operate in the new business environment and to cope with numerous new food import regulations. Many importers are likely to switch from direct imports from the U.S. to secondary imports from already-established U.S. importers in Western Europe due to lack of experience, infrastructure issues and insufficient working capital.

Due to growing investment, both local and foreign, in the agricultural sector a growing demand is likely to stimulate imports of agricultural inputs such as genetic materials, live animals, seeds, planting materials, and other raw materials such as cotton, wool, powdered milk, egg powder.

The major competitor of U.S. food exporters will be EU MS.

Import tariffs

The introduction of tariffs under the EU CXT in 2007 was a welcome relief for many local importers for the following reasons:

- most traders had issues with Customs before 2007 due to red tape practices. On the common market with free movement of goods, trade is significantly simplified;
- over the last 10 years, Customs illegally used minimum import prices on goods. This discouraged importers from looking for better quality products and hurt competition and fair play;
- many duties in CXT are lower than the duties in the Bulgarian Tariff Book for 2006.

Table 4. Comparison of tariffs applied in Bulgaria in 2006 and in the EU

Comparison of tariffs applied in Bulgaria in 2006 and in the EU		
	Bulgaria, in percent	EU, in percent
Average tariff under MFN treatment	11.6	6.5
Tariff lines for which the MFN is below 10 percent	68	82
Average tariff for agricultural products	22.9	16.5
Average tariff for industrial products	8.7	3.7
Range of tariff protection	0 percent to 110 percent as ad valorem equivalent	0 percent to 209.9 percent as ad valorem equivalent
Range of tariff protection for agricultural products	Up to 110	Up to 209.9
Range of tariff protection for industrial products	Up to 27	Up to 14
Source: Bulgarian Customs Agency		

Some tariffs, especially those for third countries became higher. This negatively affected importers of certain U.S. products. See www.customs.bg for a more comprehensive comparison of tariffs before and after Bulgaria's accession to the EU.

Following the initial excitement about lower Customs burden, an increasing number of traders have started to understand that the major barriers to trade are sanitary and phyto-sanitary requirements.

Traders rely on the assistance of the local government in dissemination and clarification of new EU regulations, particularly import requirements. However, the response is often unclear, misleading and almost always late. It is related to weak administrative capacity of institutions and a lack of qualified personnel. Overly strict interpretation of new regulations and/or the effort to show to Brussels a stringent rules implementation (often understood as an unnecessarily bureaucratic approach), often result in a lack of dialogue or tension between the authorities and the industry.

This policy is especially evident in import treatment of third country shipments, including the U.S. products. One current outcome of this situation is a tendency for importers to avoid using Bulgarian border control and using alternative entry points Greece, Cyprus, Romania; and switching from direct imports from the U.S. to closer relations with West European U.S. partners/distributors who can supply the same products and save the additional border control cost. This pattern also works well due to smaller size and dynamism of the Bulgarian market where planning imports and distribution is a challenge. This will be an important factor for trade in 2007 and in 2008 when both local agricultural and food industries, and local consumption and demand are likely to undergo significant changes. In these circumstances, traders feel more secure undertaking spot deals and short delivery time shipments.

Best prospects for U.S. exporters

Good prospects exist for the following agricultural/food products:

Seafood

Bulgaria is a net importer of fish and seafood over the last 7 years. Local market in 2006 is estimated at 28,000 MT (imports) at a value of USD 27.0 million, compared to USD 16.0 million in 2003. More than 80 percent of total seafood imports is frozen fish. U.S. exports of seafood to Bulgaria have been steadily increasing to reach close to USD 6.0 million in 2005 and USD 3.6 in 2006 or ranking second after red meat exports. Prospects on the market are very good due to favorable sanitary regime and recognized export certification. Import duties in 2007 are equal or lower than in 2006. Demand is growing due to rapid development of retail and food service outlets. Consumption has been on upward trend, especially for higher value products. A good example is trade in 2005/2006 when imports were shifted to U.S. salmon (estimated annual trade of about USD1.0 million), including fresh salmon and other high-end seafood products. A detailed marketing report about seafood market opportunities will be published by Post later in 2007.

Nuts

The nuts (tree nuts and ground nuts) market has quickly developed over last 4 years and the U.S. exports (only almonds) have grown in 2005/2006 to USD 2.3 million from USD 1.8 million in 2003. Demand is good and expanding due to increasing number of food service outlets, tourists, and middle and high-income consumers. Prospects for U.S. exporters are very good due to lack of local production of quality nuts, and increasing market size. Trade regime in 2007 is much more preferential – for example, almonds' import duty has decreased from 20-35 percent (2006) to 5.6 percent or free imports (2007); for peanuts, the import tariff has decreased from 40 percent to zero; for walnuts, from 35 percent to 4.0-5.1 percent. Currently, total nuts imports are around USD 8.0-USD 9.0 million (over 13,000 MT) with prospects to grow over USD 10.0 million (16,000 MT) in 2007. See BU7004 about import requirements for the nuts in 2007.

Snacks/Cereals

The U.S. faces competition in this market from the EU. Products exported from those countries are sourced from Western EU-MS or local joint ventures with the U.S. Bulgaria does not have a local tradition producing high quality and price competitive snacks. Therefore, much of the local consumption is met by imports. In 2006, U.S. exports were USD 2.7 million. Recently, local production of confectionery products has grown thanks to investment by EU-based companies (Kraft Foods and Nestle). They successfully compete with imports. Currently, there are only a few local Bulgarian producers of snack foods but their number has been increasing. Consumption of these products in the last three years has increased due to quickly expanding supermarket chains, food service outlets and gradually increasing consumer income. Local consumers perceive U.S. products as high quality and at competitive prices. The most popular are U.S. microwave popcorn, breakfast cereal, and some types of confectionery products.

Soft drinks/Juices

The total current import market (2006) for juices is estimated at USD 13.5 million (13,800 MT), compared USD 9.0 million two years ago. Major competitors include Austria, Germany, Poland and Greece who have nearly 50 percent of the market share. These countries compete mainly due to their proximity (i.e. cheaper freight costs). Local consumption of

juices is increasing, especially in the last two years with the development of hotel/restaurant sector. The local Association of Juice Producers expects consumption to double in the next three years. U.S. suppliers can successfully compete with juice concentrates for local manufacturers (almost all concentrates are currently imported) as well as with some juices for direct consumption that are of higher quality and can be differentiated from local products. For example, cranberry, or any frozen juices would be popular with Bulgarian consumers, if they were price competitive. However, the trade regime in 2007 is more restrictive, with duties increasing from average 15-20 percent (2006) to 15.2 percent + 20.6 Euro/100 kilos and 33.6 percent + 20.6 Euro/100 kilos (2007).

Distilled spirits

This is a very promising market in which U.S. exporters will benefit from Bulgarian EU membership due to more clear regulations and a more preferential trade regime. U.S. distilled spirits exports in 2006 were USD 3.8 million or an 81 percent increase over 2005. The new 2007 tax regulations are likely to make locally produced spirits more expensive and less competitive compared to higher quality U.S. spirits. Another pressure on local producers is to come from new food safety requirements. The trade regime in 2007 is more favorable as import duties have declined from higher levels (for example, bourbon import duty, from 15 percent min 1.26 Euro/percent vol/hl + 3.45 Euro/hl) to free imports. See BU6012 for more details.

Pet food

This market has grown quickly to over USD 22.0 million (total imports) in 2005/2006 (about 25,000 MT). The growth is likely to continue in 2007/08. The expansion of large retail outlets has led to better marketing of specialty pet foods. In addition, there are a large number of local kiosks and specialized stores that cater to pet owners. Brand names are an important marketing factor. The new 2007 trade regime, depending on the product, is more preferential for certain categories (from 20 percent import duty to zero), or more restrictive for others (from 20 percent import duty to 498-888 Euro/MT). Major competitors are Spain, Germany and Holland.

Dairy genetics

Over the last two years, the Bulgarian dairy farm industry has significantly increased its demand for high quality genetics materials, both for live animals, imported mainly from the EU, and for semen and embryos imported from the U.S. Farmers highly appreciate U.S. genetics and as of today, U.S. companies have over 60 percent of total genetics market. In value, it is close to USD 1.0 million with a forecast to increase to USD 5.0 million over the next two-three years. Trade regime (no import duties) and veterinary requirements are favorable, along with fast growing local demand. See BU6013 for more details.

EU membership impact on the agricultural sector

Grains and oilseeds sector

Direct payments under SAPS (under EC1251/99) and market intervention are applicable for this sector.

The reference area for support for grains, oilseeds and protein crops is set at 2.6 million HA. This area is determined based on historical data for the period 2000-2002, while for the average yield, the referent period is 1998-2002. The referent yield is set at 2.9 MT/HA.

The grain intervention period is set from November 1 to May 31. Crops eligible for intervention are wheat, durum wheat, corn, barley and sorghum. Bulgaria voted in the recent debate about corn intervention in favor of keeping the intervention in place. Intervention centers have been determined, on average 5 per a region, or about 100 nationwide.

Bulgaria is a net exporter of grain and oilseeds. The bulk of this production is intended for animal feed consumption. It is estimated that most Bulgarian grains (wheat, corn, barley) will not be able to qualify for intervention due to quality issues. On the other hand, Bulgaria is active and competitive on the Black Sea market and it is likely that the country will continue to benefit from this trade. Intervention may not be fully used due to logistical and infrastructure issues such as a lack of sufficient on-farm storage to store grains until the start of the intervention. Local farmers comment that the intervention period is not selected well since most of them sell grains and oilseeds before November for financial reasons. They think Bulgaria should have opted for an intervention period typical for Southern countries, August 1 - April 30.

Overall, EU membership is likely to have a very positive and immediate effect on the grain and oilseeds industry. The grain sector is efficient, covers large amounts of arable land with clear ownership, and is export competitive. The industry did not receive any sizable support in the past and new SAPS payments will lead to a growth in planted areas, production and quality. The crop with the best prospects for growth is corn, followed by wheat, sunflower and barley. It is expected that an emerging biofuels industry will also sustain the development of this sector. See BU6006 for more details.

Table 5. Grain and oilseeds trade, CY2005 and 2006, MT

Grain and oilseeds trade, CY2005 and 2006, MT				
	Imports		Exports	
	2005	2006	2005	2006
Wheat	6,847	5,163	1,116,382	1,304,368
Barley	68	43	229,081	181,482
Corn	5,989	4,223	519,104	264,374
Sunflower	3,596	3,297	489,350	488,875

Source: Marketing Department, Bulgarian Ministry of Agriculture

Sugar sector

Total annual sugar quota is set at 203,500 MT of which:

- Quota A for white sugar from sugar beet – 4,320 MT;
- Quota B for white sugar from sugar beet – 432 MT;
- Quota for white sugar production from non-refined cane sugar under preferential imports – 198,748 MT;
- annual quota for iso-glucose – 56,063 MT, on 42 percent fructose on a dry basis.

Bulgaria traditionally is a net importer of white sugar and produces white sugar from imported non-refined cane sugar. For this reason, intervention mechanisms are not likely to be used. Production of sugar beet is negligible and declining (sugar beet in 2005 was grown on 956 HA). Overall, quotas in this sector are sufficient for local production.

In January 2007, the State Fund Agriculture (Paying Agency) approved a transitional quota for iso-glucose for the only starch manufacturer in the country at a higher level of 78,153 MT in dry substance equivalent for MY2007/2008. This was possible due to the EC decision,

according to which Bulgaria can use an annual increase of 11,000 MT for the first three transitional years.

The quota for white sugar from sugar beet (for only one such processor) was set at 4,752 MT or no change was made.

Dairy sector

Negotiated terms and domestic support

The total national reference quantity for milk set for Bulgaria is 979,000 MT, of which 722,000 MT for deliveries and 257,000 MT for direct sales. To this, a "Reserve" quota of 39,180 MT may be added in 2009 (counting current on-farm consumption). The referent average fat content is 39.1 g/kg.

There are no direct payments for milk under the milk quota in 2007. If Bulgaria exceeds its milk quota, a fine of 27.83 Euro/100 kilos is imposed on the whole quantity above the quota. If after accession the country is not able to fulfill the whole production quota, the unsupplied amount will be lost and the quota adjusted downward.

EU funding in the dairy sector is focused on indirect support for farmers. According to the rural development plan, the sector will be able to access 730 million Euro under 3 axes: support for young farmers; upgrading and modernization of farms; and support for semi-commercial farms.

Due to the lack of direct EU support, in 2007, 9.0 million leva (4.5 million Euro) were allocated for bonuses for quality milk from the national budget; and 650,000 leva (325,000 Euro) for the breeding associations (including dairy associations). If Brussels approves the restoration of "Livestock" program, the allocation for 2007 will be in the range of 20 to 30 million leva (10-15 million Euro).

Dairy quotas

The Ministry of Agriculture decided that all producers, regardless of the number of cows they own, are eligible to participate in the EU milk quotas.

In 2006, the industry established the National Dairy Board. A pilot project was implemented for a distribution of individual milk quotas. Total 117,000 farmers participated and distributed 854,000 MT of milk for deliveries and 78,000 MT for direct sales. The process of registration and individual quota allocation will end in March 2007. After this, those producers whose production exceeds their quota will have to pay levies for the extra milk delivered. Farmers who are not granted a quota will not be eligible for commercial sales. Farmers will be able to buy or sell quotas. See BU6003 for more details.

The major challenges in the dairy sector are related to the declining number of dairy stocks (see Table 6) and fragmented distribution of cows at smaller farms (see the information below), lack of good genetics, insufficient investment and improper management. These factors are contributing to a tendency of declining total milk supply (6 percent down in 2005 vs. 2004), especially the supply of quality milk which can be processed and sold at the single market. Currently, it is estimated that 100,000 cows out of total 357,000 may potentially produce raw milk as per the EU standards. At the same time, total cows milk production exceeds the EU quota which means that some reduction in the number of cows is likely in the future.

Industry representatives believe that after the first several years of Bulgaria's European membership, the amount of milk processed domestically will increase in parallel with a reduction in direct sales. Already in 2004-2006, the share of milk deliveries increased, from 52.8 percent to 56.3 percent for total milk (2005 vs. 2004), and 59.3 percent to 62.4 percent for cow milk (2005 vs. 2004). In absolute volume, total milk for processing and cows milk for processing grew by 7 percent. Direct sales declined. (see Table 8). The Ministry of Agriculture forecasts that direct sales in 2007/2008 will be around 80,000 MT - 90,000 MT.

According to early tentative data about dairy quotas for 2007/2008, farmers requested 1,020,000 MT (96,000 farmers and 338,000 cows) or above the allowed quota, of which 940,000 MT for deliveries and 80,000 MT for direct sales. Reportedly, farms which have more than 50 cows requested about 150,000 MT of milk. Farms with fewer than 5 cows dominate and have requested about 45 percent of total milk. It is assumed that if any reduction in requested quantities is made, it will come from the group of smaller farms which are not fully meeting the sanitary and quality requirements (so called third category, see milk quality section below).

Reportedly, the Ministry of Agriculture is willing to request from Brussels a redistribution of quota for deliveries and direct sales for 2007 based on the data from 2006 and requests for 2007 quota. The request to the EC will be for a reduction in direct sales quota to 90,000 MT, and an increase in milk deliveries quota to 889,000 MT

Table 6. Number of dairy livestock in Bulgaria, 2006 and 2005, head

	Cows	Ewes	She-goats
Dairy animals May 1, 2006, head	357,100	1,309,400	507,500
Change in numbers 2006/2005	-5.6 percent	-1.6 percent	-14.0 percent
Average number per farm	2.6	7.2	2.6

Source: Bulgarian Ministry of Agriculture

Distribution of dairy cows per farms in 2005 (not including farms with 1-2 cows):

3-9 cows: 20,136 farms – 84,782 cows;

10-19 cows: 2,744 farms - 34,411 cows;

20-49 cows: 1,364 farms - 37,710 cows;

Over 50 cows: 413 farms - 37,739 cows.

Table 7. Cow Milk Production and Distribution in Bulgaria 2003-2005, 000 liters

Cow Milk Production and Distribution in Bulgaria 2003-2005, 000 liters				
	2004, total processed milk and its share from total collected milk, 000 liters		2005, total processed milk and its share from total collected milk, 000 liters	
Cows milk	774,310	94.5 percent	779,685	94.6 percent
Sheep milk	40,538	5.0 percent	41,212	5.0 percent
Goat milk	2,359	0.3 percent	1,973	0.2 percent
Buffalo milk	1,750	0.2 percent	1,714	0.2 percent
Total	818,957	100 percent	824,584	100 percent

Source: Bulgarian Ministry of Agriculture

Table 8. Development of milk production and distribution, 2004-2005

	2004	Inc. cows milk	2005	Inc. cows milk
Total Milk Production (thou liters)	1,551,054	1,305,582	1,463,740	1,249,426
Used as feed	84,604	52,653	56,984	44,960
Used on farm (self-consumption)	352,773	205,464	332,845	224,746
Direct sales	294,720	273,155	249,327	200,035
Delivered for processing	818,957	774,310	824,584	779,685
<i>Source: Bulgarian Ministry of Agriculture</i>				

Milk Quality

Currently, a serious challenge is production of quality milk that meets EU standards (see BU7002). Milk sanitation and collection is slowly but steadily improving, driven by both the presence of international operators and the increased access to EU equipment subsidies that support small rural operators. A number of other priorities still need to be addressed: improvements in genetics material and dairy breeds (more than 3,000 breeding animals were imported in 2005/06); feed and forage practices; advanced techniques for animal husbandry, etc. See BU6013 for more details.

Nonetheless, the lack of good quality milk is an important constraint to the processing industry and was the reason for the EU ban on sales of dairy products on the single market from non-EU approved dairies. Bulgaria was given a transitional period until the end-2008 to modernize milk processing plants and to organize the milk collection and standardization centers in order to comply with the Community structural requirements. Non-compliant raw milk and raw milk from non-compliant farms can be delivered for processing only to establishments benefiting from a transitional period. Products from establishments subject to transitional arrangements will not be sold on the common market and are to be clearly identified (labeled) for the local market.

In 2006, all dairy farmers were divided in 3 categories depending on the extent to which they meet veterinary/sanitary and milk quality requirements. Farms in the first category (fully meeting EU sanitary and milk quality standards) are 978, with 45,000 cows and produce 150,000 MT (2006). In 2007, these farms are expected to produce roughly 190,000 MT and to account for 20 percent of the dairy quota. According to the Ministry of Agriculture forecast, by 2009, this type of farms will increase in number (above 3,000) and will account for 250,000 cows and for more than 90 percent of the dairy quota.

It is still unclear if the country will be able to sell its dairy products to its traditional third country markets such as the Near and the Middle East, Australia and the U.S. Such decision is expected to be taken by Brussels soon.

Dairy products market

The dairy product market registered growth every year over the last 3-4 years. In 2005, the annual growth rate varied from 3.2 percent for cheeses and yogurt, to 23 percent-25 percent for drinking milk, cream and dairy desserts. It is certain that the country's EU accession will bring structural changes related to rapid expansion of the share of processed milk products for consumption at the expense of the non-pasteurized, traditional home-made products, still available in smaller rural markets.

Bulgaria is a net exporter of traditional local cheeses but imports dairy products which are not locally produced (certain types of cheeses and dairy desserts). EU membership is likely to have a positive impact on the local industry in the medium term if local businesses manage to adapt to strong EU competition and find the right market approach for specific local cheeses. Producers oriented towards supply of dairy products for the single market may need to import high quality fresh milk or powder milk as substitute of local milk due to current shortages of quality raw material (see BU7002). Elimination of import tariffs is expected to increase dairy imports from the EU and contribute to tougher competition. At the same time, the high common external tariff drastically limit opportunities for imports from non-EU sources.

Table 9. Trade in dairy products, 2005 and 2006, MT

Trade in dairy products, 2005 and 2006, MT				
	Imports		Exports	
	2005	2006	2005	2006
Dairy products, total	20,994	20,902	18,800	15,854

Source: Marketing Department, Bulgarian Ministry of Agriculture

Red meat sector

Swine and pork sector

Bulgaria's swine inventories have been fluctuating in recent years with a general downward trend. In May, 2006, the numbers were 17.1 percent higher than a year before with a 2.4 percent growth for sows. The swineherds are mainly at commercial farms (46 percent in 2005) but still a significant percent is held in small individual farms and households. Some of these small holdings are illegal and not registered with the respective health authorities. A number of them were liquidated by the authorities in 2006 due to animal health concerns (classical swine fever).

Distribution of swineherd (not counting farms with less than 10 pigs):

10-100 swine: 6,590 farms – 139,398 swine

100-999 swine: 281 farms – 66,149 swine

Over 1000 head: 76 farms – 430,239

Lack of sufficient size herds and commercial orientation present obstacles to supplying the processing industry with quality meat, because many farms lack proper feeding and husbandry practices, and generally use poor genetics. In recent years, the pork supply has remained short, of mediocre quality and fragmented. In 2005, pork produced at slaughter houses was 38,512 MT compared to imports of 34,296 MT.

In 2006, the carcass grading system (S)EUROP began to be applied, initially at 4 slaughterhouses. Thirteen experts were trained to work at the 9 larger slaughterhouses. Since currently livestock is sold on a live weight basis, the application of this system will be limited in 2007. The pilot project implemented in 2006 showed that 20 percent of pig carcasses were classified in "E" category, 57 percent in "U" and 16 percent in "R".

EU membership will create challenges for the swine industry. It will be squeezed between increasing EU competition and internal health and quality issues, which are likely to cause significant structural changes. Domestic producers cannot benefit from the access to the enlarged market, as Bulgaria continues to fight classical swine fever (see BU7002) and pork

exports to the EU are banned. Those farms that invest in technologies, improved genetics and biosecurity will have a chance to remain operational.

The sector has the potential to grow overall, based on a number of favorable factors. Pork is traditionally the most preferred meat by the average Bulgarian consumer. Domestic market continues to grow, along with the purchasing power of the population. Bulgarians consume mainly local fresh pork meat while imported frozen product is used for processing. Local pork prices are still relatively competitive due to low costs of feed grains (especially corn, as Bulgaria is a traditional corn producer and a net exporter) and inexpensive labor costs.

Trade

The domestic pork shortage made pork one of the top agricultural imports into Bulgaria since 2000 (see Table 10). Major pork suppliers to Bulgaria were EU member countries (Germany, France, Spain), Canada and the U.S. until December 2006, when Bulgaria starting applying the EU veterinary regime. Most imports were levied at 622 Euro-644 Euro/MT (only 10,550 MT of swine meat entering duty-free under a preferential EU TRQ, and 3,500 MT under reduced duty autonomous TRQ in 2006).

The effects of the intra-community free trade have become visible already in January/February 2007, when retail prices for pork meat cuts and processed pork meat products registered a 7-10 percent reduction. Industry estimates that pork prices will be down 10 percent in 2007 compared to 2006.

In 2007, some pork businesses had intentions to export typical processed pork products to the common market, made from EU origin meat. However, the FVO decision to significantly cut the number of approved establishments made this impossible. See BU7002 for more details.

Beef meat

Bulgaria was granted 90,343 rights for special bonuses for male cattle. Total 16,019 animals are eligible for bonuses for cows with suckling calves. The country was also given 22,191 rights for bonuses for slaughter of cattle and 101,542 for calves. These levels were determined based on the number of slaughtered animals at slaughter houses which is not a significant percent of total livestock.

Bulgaria is a negligible producer and a net importer of beef. The 2005 production at slaughterhouses was 5,272 MT or 30 percent down compared to 2004. Beef imports in 2005 and 2006, mainly from Latin American countries, increased to 64,000 MT to meet the demand of the processing industry. Beef was often used as a substitute for pork in processing if the price was competitive. In 2007, Bulgaria is likely to reduce sharply imports of beef for processing due to lack of opportunity to import inexpensive Latin American product. Imports of more expensive EU origin beef are likely be limited.

Local beef production is marginal. Meat breeds and herds are emerging only now due to EU membership and EU domestic support which was not existent in the pre-accession period. The small supply from local slaughterhouses is consumed fresh on the local market. The new domestic support programs are likely to encourage the establishment of beef farms, however, Bulgaria will continue to be a net importer of this product.

Bulgarians are not traditionally consumers of beef. Over the last 3 years, however, higher income consumers have created and sustained the demand for prime cuts, mainly at the

food service outlets. Major restaurant chains report triple higher volumes of beef sales. EU membership is likely to support further the demand for quality beef which is targeted at certain market niches.

Sheep and goat meat

Bulgaria is a traditional producer and exporter of sheep and goat meat. Over the last several years, however, sheep stocks declined (1,945,000 head in May 2006 or a negative growth of 6.2 percent compared to 2005) which raises concerns about stability and sustainability of local export potential. Similarly to the cattle sector, it is fragmented and concentrated in small, subsistence holdings.

Distribution of sheep stocks, 2005 (not counting farms with less than 50 sheep):

50-99 head: 2,147 farms - 142,540 sheep;
100-199 head: 1186 farms - 145,624 sheep;
Over 200 head: 460 farms – 149,187 sheep.

Sheep milk production is limited at 6 percent-8 percent of total milk but has increased since 2005.

Commercial supply of meat from slaughterhouses is also limited but increasing. In 2005, commercial production of sheep meat was 9,123 MT (out of 18,000 MT total sheep meat) or 5 percent growth over 2004. Annual sheep meat exports are around 8,000 MT.

In 2007, local farmers and traders plan to import live sheep from Romania and Greece, to slaughter them in Bulgaria and export the meat to Western European MS (imports in 2006 were record high at 363,000 sheep). This trade pattern is prompted by the lack of sufficient number of EU approved slaughter houses in Romania while Bulgaria has several such facilities. At the same time, inventories in Romania are much higher than in Bulgaria. Thus, the sector will be one of the first to see the advantages of liberalized intra-community trade.

In general, this sector had no domestic support in pre-accession period and the new programs, along with the free trade on the single market, will have a positive effect of sheep and goat farming. The country is given a ceiling of 2,058,483 head eligible for bonuses. This number includes a national reserve of 3 percent. The supplementary payments in the sectors are set at 2.176 million Euro. In 2007, the sector will be supported under 2 national funds programs: 1.1 million leva (550,000 Euro) for quality milk bonuses and 576,000 leva (285,000 Euro) for sheep meat producers.

Table 10. Trade in meats, 2005 and 2006, MT

Trade in meats, 2005 and 2006, MT				
	Imports		Exports	
	2005	2006	2005	2006
Total meat	129,628	143,393	17,000	16,560
Pork	34,926	37,694	129	113
Beef	50,509	63,567	126	216
Poultry	44,059	42,109	8,481	8,054

Source: Marketing Department, Bulgarian Ministry of Agriculture

Poultry sector

The poultry sector has been developing successfully over the past years. Inventories are stable at around 20 million. Bulgaria did not register avian influenza in domestic poultry and despite a temporary crisis in 2006, the market quickly was restored to previous levels.

Distribution of poultry per farms, 2005 (not counting farms with less than 100 birds):

100-999 birds: 485 farms – 399,901 poultry
1000-19,999 birds: 33 farms – 353,435 poultry;
Over 20,000: 35 farms – 4,026,025 poultry.

Commercial poultry meat and products supply has increased and in 2005 was over 86,000 MT or 29 percent growth vs. 2004, out of total 98,000 MT poultry meat production. Local operations (often vertically integrated from feed production to hatchery, production and further to slaughtering and processing, and distribution) made serious modernization efforts in the pre-accession years. This covers a wide range of aspects, from animal welfare to slaughtering equipment and technology. Most plants were able to get EU export approval. Five new facilities were built in 2006 and the largest to date was opened in the fall of 2006 (capacity of 40,000 MT). Out of 23 slaughterhouses, 7 can trade on the EU single market.

EU membership is likely to have a positive impact on the sector. Production costs (especially the cost of feed grains and labor) will continue to be key to the sector's competitiveness. Broiler production is expected to increase in the coming three years to 120,000 MT, in parallel with an accelerating market concentration. Egg production will prosper (a forecast for 1.7 billion eggs production by 2009) due to good export opportunities (80 million eggs exported in 2006 vs. 53 million in 2005).

Trade

Despite the rapid expansion of domestic broiler production in the recent years, Bulgaria was a net importer of poultry meat, mainly turkey but also broiler cuts. Far in advance to its EU accession, Bulgaria implemented trade protectionist measures, primarily strict tariff measures, allegedly to give local industry time to recover. However, imports (usually frozen) remained high, although declining in 2004-2006 due to shift in consumption towards more fresh product.

With Bulgaria's EU membership, assuming that domestic production will be able to adapt rapidly to the enlarged market's conditions, imports will continue to fall. In the short run, Brazil will likely be able to ship under EU TRQs, and MS will supply the rest.

Vine and wine sector

Vineyards areas in Bulgaria have declined since 2000 to 126,842 HA of which 32,118 HA are abandoned and not farmed and 94,724 HA were farmed (2005). Actual harvested area in 2005 was 80,802 HA. The process of reduction in total area is considered completed. Due to active investment, 3,400 HA new vineyards have been planted in 2003-2005.

Bulgaria grows mainly red vintage varieties as follows: 50,686 HA (62.7 percent) red vintage varieties, 26,054 HA (32.2 percent) white vintage varieties, and only 4,062 HA (5.1 percent) table grapes. About 92 percent of 2005 grapes production (244,500 MT out of total 266,183 MT) was processed into wine.

The sector continues to concentrate and commercialize. In 2005, 89 percent of grapes (217,758 MT) were delivered for processing to commercial wineries which was a 20 percent growth over 2004. As a result, wine production was 9 percent higher at 1,548,467 hectoliters of which 59 percent were red wines. In 2006, the trend continued and wineries were able to purchase 241,000 MT of grapes or 10 percent more than in 2005.

Table 11. Wine production in 2002-2005, thousand liters

	2002	2003	2004	2005
Total	103,642	153,332	141,747	154,847
Table wines	60,279	86,752	94,334	129,128
Regional wines	25,089	31,375	26,084	15,243
Quality wines	18,838	34,911	20,694	9,301
Total must	1,100	1,180	1,343	1,365

Source: Bulgarian vine and wine chamber

Table 12. Wine production in 2005 according to declarations, thousand liters

Produced wine in 2005 according to the declarations			
Product	Produces		Total
	Red and rose	white	
1 .1 .Table wines	72,535	56,593	129,128
1.2. Regional wines	11,422	3,820	15, 243
1 .3. Quality wines with GAO – (Guaranteed appellation of origin)	7,207	2,094	9,301
1 .4. Quality wines with GCAO (Guaranteed and controlled appellation of origin)	416	360	775
2. Sparkling wines			
3. 1 . Liqueur wines	385	8	393
3.2. Aromatic wines	1	2	3
3.3. Noble sweet wines		2	2
Total	91,967	62,880	154,847

Source: Executive Vine and Wine Agency

According to the soil and the climatic conditions as well as the grape varieties, five major vine and wine regions can be defined in the country:

- the Danube Plain region (Northern Bulgaria)
- the Black Sea region (Eastern Bulgaria)
- the Rose Valley region
- the Thracian Lowlands region (Southern Bulgaria) and
- the Strouma Valley region (South-western Bulgaria)

The above five regions were enlarged to two major vine regions.

The EC is given Bulgaria rights to plant 1.5 percent of the vine potential based on a ceiling area of 153,500 HA as of the accession date. The area for table grapes is fixed at 19,700 HA.

In 2006, vine growers actively registered their vineyards. As of October 2006, total registered areas were 132,207 HA and 72,000 farms with vineyards.

Although the EU does not use SAPS for vine growers, in the first 3 transitional years, Bulgaria vine producers will be eligible for direct payments. Since the sector was not significantly supported before 2007, it is expected that EU membership will have a positive impact on the vine and wine production, initially visible in investments in new vineyards.

Trade

Bulgaria is a traditional net wine exporter but over the past years faced challenges related to reduced area of young vineyards, outdated vintage varieties, lack of consistent supply of quality wines, weak marketing, and intellectual property rights issues etc. It is forecast that EU membership will address some of these issues in the medium term.

Wine is one of the sectors generating hard currency to Bulgaria's economy, as the product is traditionally shipped to EU, US, Russia etc. Bulgaria exports about 90 percent of its wine, in recent years increasingly to the Russian market (see Tables 13, 14, 15). Nonetheless, in 2006, the trade balance for wine deteriorated. Exports of wines in 2006 declined 2 percent from 1,141,747 hectoliters to 1,122,427 hectoliters while imports grew from 46,652 hectoliters to 123,695 hectoliters or more than double. Imports from third countries (Chile, Australia, U.S., South Africa, Argentina) are expected to increase their market share in Bulgaria in 2007 onward.

It is generally expected that accession will significantly impact the sector, especially through the liberalization of the intra-community trade regime, but also as the common external tariff (CXT) of 32 Euro per hl is lower than Bulgaria (12 percent + 35 Euro/hl) applied until the end of 2006. Competition from the EU and abroad will likely force local producers to increase the quality and/or cut on prices. Industry consolidation will continue to grow and only the companies who invest in quality, production and marketing to attract constant consumers will be able to survive.

Trade marks

Bulgaria was able to protect the trade name "Rozenhaler" and kept the geographic indication "Rose Valley". The country was not able to protect the names "rakia" and "uzo" since these names are already used in other MS, Slovenia and Greece, respectively. Thirteen brandies were listed as traditional Bulgarian spirits with a geographic indication.

Table 13. Exports of wines 2001-2005, thousand liters

Wine groups	2001	2002	2003	2004	2005
Bottled	55,037	57,605	59,822	70,689	88,965
Bulk	24,144	20,022	16,078	19,300	24,211
Sparkling	1,091	919	911	495	999
Total	80,272	78,547	76,811	90,485	114,174

Source: National Vine and Wine Chamber

Table 14. Exports of bottled wines, 2004-2005

Country	Quantity (thousand liters)		
	2004	2005	percent change
Russia	30,894	53,934	74.58 percent
Poland	17,953	19,204	6.96 percent
Great Britain	4,731	2,647	-44.05 percent
Czech Republic	2,102	2,309	9.84 percent
Lithuania	1,921	1,481	-22.88 percent
Germany	3,624	1,348	-62.81 percent
Sweden	1,253	1,309	4.51 percent
Latvia	1,961	1,150	-41.34 percent

Source: National Vine and Wine Chamber

Table 15. Exports of bulk wines, 2004-2005.

Country	Quantity (thousand liters)		
	2004	2005	percent change
Russia	8,609	15,119	75.61 percent
Germany	5,153	3,555	-31.01 percent
Japan	995	1,478	48.51 percent
Great Britain	1,253	1,303	3.97 percent
Sweden	252	935	270.66 percent
France	860	509	-40.74 percent
Poland	545	367	-32.66 percent
Lithuania	352	241	-31.71 percent
Belgium	190	211	10.69 percent
Finland	129	159	23.23 percent

Source: National Vine and Wine Chamber

Fruits and vegetables sector

Bulgaria vegetable growers are in a disadvantaged position regarding their access to direct payments. Initially, the GOB requested the minimal eligible vegetable area per a farm to be 0.5 HA, but it was not approved by the EC. Thus, more than half of current vegetable gardens which are below 0.5 HA will be left without direct payments. These farms can join producer organizations to be able to have access to EU funding.

However, as of today, the most considerable challenge for fruits and vegetable (and dairy and tobacco producers) growers is the lack of producer organizations (PO). Due to high criteria (30 members and value of production of 100 000 Euro) and despite SAPARD program support, Bulgaria has a very few such recognized organizations.

The latest EU fruit and vegetable sector reform was welcome by the local government and growers. The reform was viewed as a motivation for establishment of POs. The new changes will allow growers who produce even only one type of vegetables or fruits to join such organizations. The requirement about a turnover of 100,000 Euro is expected to be suspended from 2008. The share of sales outside the POs (currently at 25 percent) is likely to be increased to 50 percent.

Following EU accession, the Bulgarian market for fruits and vegetables will expand with imports increasing in the short-medium term. Traditional exporters to Bulgaria such as Turkey and Macedonia will be able to export at lower tariffs. Already in March 2007, consumers, retailers and farmers, especially from South Bulgaria have reported unusually low prices of Macedonian produce (apples) shipped to Bulgaria from Greece. Other suppliers such as Greece, Spain and Poland are also likely to increase their shipments to Bulgaria.

As a result, the local market will have to adjust to higher quality (and safety) standards and lower prices. Domestic growers will face increased competition which will motivate larger producers but may also push smaller gardeners off the commercial market.

Negotiated support terms:

Tomatoes: The support ceiling for tomatoes for processing is set at 156, 343 MT eligible for a subsidy of 35.5 Euro/MT or total 5.4 million Euro.

Peaches: The maximum support quantity is set at 17,843 MT, eligible for 47.7 Euro/MT

Table 16. Trade in fruits and vegetables, 2005-2006, MT

Trade in fruits and vegetables, 2005-2006, MT				
	Imports		Exports	
	2005	2006	2005	2006
Fruits, total	44,445	44,010	393	386
Vegetables, total	71,101	54,707	7,546	8,841

Source: Marketing Department, Bulgarian Ministry of Agriculture

Tobacco

Bulgaria is a net tobacco exporter. The tobacco sector is traditionally one of the largest sub-sectors in Bulgarian agriculture and has enjoyed high political and financial support over the last 16 years. Usually, about 45,000 -50,000 tobacco producers have been a subject of support which was an average about 150 -170 million leva (75-85 million Euro). This support guaranteed high profitability of tobacco growers but led to production of extra high stocks of mediocre and declining quality.

Due to political sensitivity of this sector, the GOB negotiated a grace period for tobacco sector support, from 2007 to 2009. In this period, the sector will be supported from the national funds. The main reason is that only about 10 percent of total 66,200 tobacco growers cultivate land above 1.0 HA, the rest can not meet the SAPS eligibility criteria and will be left without domestic support. In 2006, the bonuses paid for tobacco were from 2,620 leva/HA (1,310 Euro/HA) to 4,940 leva/ HA (2,470 Euro/HA). In other words, even if the national support declines, which is the intention of the Ministry of Agriculture, these schemes far exceed the EU funding.

The tobacco sector will be the only sector in the country which will have both SAPS payments and national domestic support programs. The domestic tobacco program for 2007 has fewer funds than in 2006, 125 million leva (63 million Euro) compared to a traditional spending of 160 million leva (80 million Euro) in 2006 and 2005.

The national production quota was set at 43,137 MT divided in the following groups:

- Flue cured, Virginia – 9,023 MT;
- Light air cured, Burley – 3,208 MT;
- Basmi – 31,106 MT
- Kaba kulak – 3,800 MT

Table 17. Trade in tobacco, 2005-2006, MT

Trade in tobacco, 2005-2006, MT				
	Imports		Exports	
	2005	2006	2005	2006
Tobacco	6,924	11,113	33,383	38,953

Source: Marketing Department, Bulgarian Ministry of Agriculture

Organic production

The GOB has the ambitious goal to develop the organic production in Bulgaria as a priority area with an export orientation (see BU6014). The emphasis is given to herbs, wild berries, bee honey, vegetables, fruit, and sheep. A National Plan for Development of Organic Sector in 2006-2013 was approved by the Ministry of Agriculture in October 2005. The goal is to have 8 percent of agricultural land under organic production by 2013 compared to current below 0.5 percent. Currently, the Ministry of Agriculture has recognized two national organic certification organizations.

In 2006, SAPARD Agency was granted accreditation by the EC for a measure aimed at the development of agricultural business with the goal to protect environment. The EU-SAPARD program allocated 12.6 million Euro, of which 75 percent provided by the EU and 25 percent from the national budget. This measure was supposed to cover 2 percent-10 percent of agricultural land with field crops and 5-20 percent of pastures and meadows. A significant portion of funds is likely be used for development of organic farms in 5 years projects. Support for organic farming in the first three years is 20 percent higher. The size of compensation payments is 391 Euro/HA for perennials, vegetables and vines in the first 3 years, and 313 Euro/HA in the next 2 years. The amounts payable for aromatic and medical plants is 225 Euro/HA in the first 3 years and 180 Euro/HA in the next 2 years. For feed crops, these payments are respectively 125 Euro/HA and 100 Euro/HA.

Under the rural development funds, the budget for organic production is 165.8 million leva (83 million Euro). Out of them, 30.7 million leva (16 million Euro) are only for the support of organic market. See GAIN BU6014.

Land market

Over the last 2-3 years, the Bulgarian land market has undergone a dynamic development related to upcoming membership and development of the agricultural sector. Farmers in Bulgaria cultivate mainly leased land. The land market was not developed until 2004 and land prices were low. Farmers, together with speculators, have started to actively purchase land since 2002. Market development opened the opportunity for farms to work with larger consolidated parcels and avoid fragmentation which causes high administrative cost and lower efficiency and competitiveness. However, the market is still underdeveloped due to reluctance of banks to make agricultural land mortgages; frequent unwillingness of small land owners to sell land in anticipation of high prices; and due to expectations for SAPS payments. In addition, the agricultural land property is free of taxes which discourages sales.

Current average land prices are around 800-900 Euro/HA but are quickly rising. The amount of agricultural land sold has increased from 19,000 HA in 2000 to 59,000 HA in 2005. The process of converging of agricultural land prices in Bulgaria and in the EU is expected to continue in 2007 and in the future. This will lead to higher production cost of locally produced crops and they may lose part of their cost competitiveness. Many farmers have a clear understanding of these trends but spur further the demand by investing significant

amounts in land sales. The most significant players on the market, however, are property/land funds which buy small fragmented land plots, consolidate them, and sell to foreign investors for a considerable gain.